Exhibit F

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WESTERN ASSET

Why We Are Buying Mortgages

Past periods of financial market distress have also generally been periods of attractive investment opportunities. Such periods were seen to be "distressed" in the first place—and are still seen as such in retrospect—largely because market prices for credit spread products were so universally—and temporarily—depressed then, thanks to the phobia for risks of any kind that some investors developed during those crises. We believe the current period of market distress will also eventually be recognized in retrospect as one of attractive investment opportunities. Accordingly, we've been making investments on behalf of our clients and want to provide this background to help explain our thinking.

In the recent market environment, investors' distaste for risk has pushed down yields on Treasury issues. However, every other dollar-denominated fixed-income product has seen an increase in market yield and thus a substantial increase in its yield spread over comparable Treasuries, even those assets with very low "quality" risk. Either the investment community as a whole is pricing fixed-income assets irrationally, or it is building into financial market prices a substantial probability of calamity in the American economy, a disruption in economic growth and financial market integrity so severe that even the most credit-worthy institutions would face substantial prospects of default and/or bankruptcy.

We believe that the American economy will experience something less stressful than outright calamity. Thus, we believe that many securities that currently appear to be priced for calamity present attractive investment opportunities. With this outlook, Western is currently seeking to add value for our clients through investments in mortgage instruments in particular. In a period when the U.S. economy is experiencing a severe housing slump and when the prices of all assets have been marked down in response, we believe some of the most compelling investment opportunities lie precisely in real estate related paper. The reasons for this belief are simple.

If, as we assert, many financial assets are priced to reflect substantial risks of economic calamity, then we would expect investments in those assets to produce attractive returns if calamity in fact does not befall the U.S. economy. In other words, one could attempt to achieve above-market returns simply by making the "macro" bet that calamity does not occur. It is our opinion that some mortgage instruments are a pure example of such a bet. As long as the incidence of U.S. mortgage defaults holds at something less than calamitous levels or the federal government fulfills its explicit or implicit guarantees of the issuing mortgage agencies, we anticipate that these issues would fulfill their promises of principal and interest payments. We believe that combining that outlook with the fact that mortgage issues currently feature elevated spreads over Treasuries provides the opportunity to produce attractive returns on these issues.

While we believe that current pricing is also attractive on various emerging market and high-yield debt issues, these involve both a macro bet on non-calamitous conditions and a micro bet on the particular country or issuer. This is not to say that such a combination of macro and micro bets should not be made. However, Western believes that a purely macro bet is particularly compelling when it is available at such attractive pricing as recently has been the case.

We can typify the levels of attractive financing now available in the mortgage market by detailing the market for "agency hybrids." Hybrids are adjustable rate mortgages for which the interest rate is initially fixed for three to ten years. After that period, their interest rates float in line with an index such as LIBOR or Treasury bill yields. Agency hybrids are mortgage-backed securities issued by Fannie Mae, Freddie Mac or Ginnie Mae.

While mortgage underwriting guidelines of agency mortgage securities might be more restrictive than those of private sector issuers, the real hallmarks of agency issues are the guarantees they carry. Specifically, principal and interest payments on agency mortgage-backed securities are either guaranteed explicitly by the U.S. Treasury, in the case of Ginnie Mae issues, or by the agencies themselves, in the cases of Fannie Mae and Freddie Mac issues. Even the issues by Fannie Mae or Freddie Mac are perceived by market participants to have the ***implicit*** backing of the U.S. Treasury.

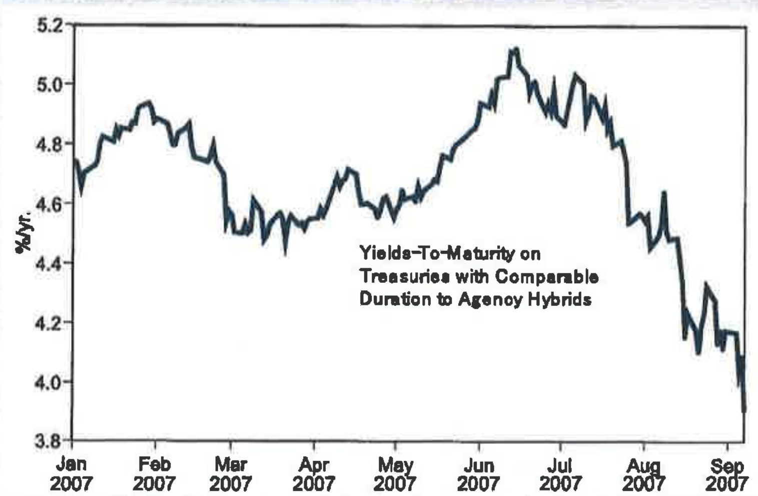
Agency hybrids are comprised of a pool of adjustable-rate mortgages. These carry less "convexity risk" than fixed-rate mortgages, because their interest rates are fixed for only a short period, and so their duration is less sensitive to fluctuations in prepayment speeds. This reduced interest rate risk enhances their status as "pure" macro bets on the near-term viability of the U.S. financial system.

In the past few months, perceived risks of default on subprime mortgages have risen sharply, and this is understandable. In reaction to this, perceived credit risks for high yield, emerging market, and other sectors have risen as well. For agency hybrids, the backing provided by the federal government and/or by the agencies themselves is still in place, and there is no obvious reason to think that this backing has lost credibility lately.

Yet, consider the yield swings these issues have experienced recently. Exhibits 1 through 3 show relevant Treasury yields, yields on agency hybrids, and spreads of hybrids over Treasuries this year. These spreads rose from 60 basis points (bps) in March 2007 to 160 bps in late August. Recent spreads are far beyond the trading ranges of the last few years and, again, such spreads are available on products with only slightly more risk than Treasury issues.[1]

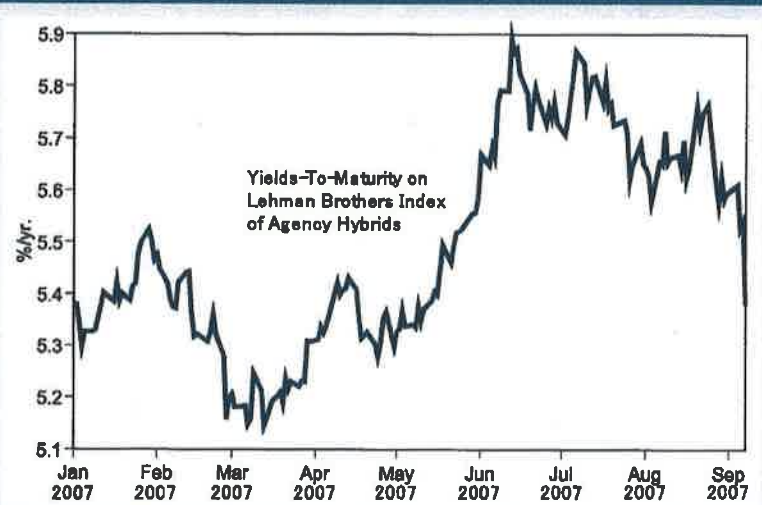
Specifically, on average in March, agency hybrids offered a yield-to-maturity of 5.21%, while comparable duration Treasuries were yielding 4.53%. At "peak" conditions on August

Exhibit 1
This is How Treasury Yields Have Moved...



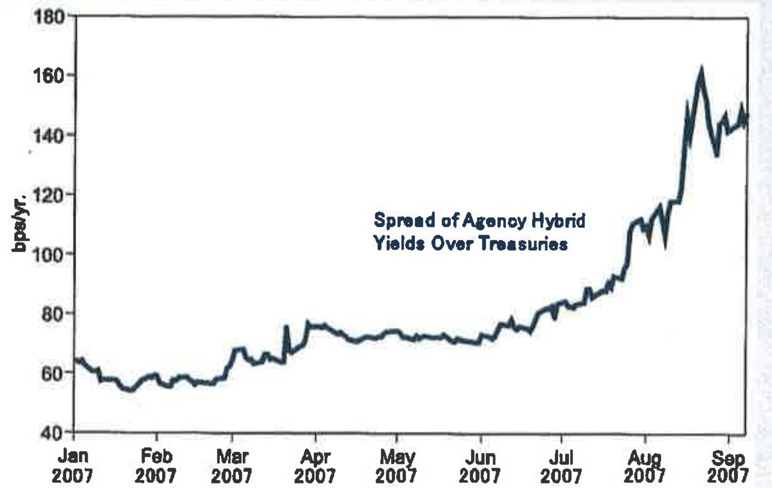
Source: Lehman Brothers

Exhibit 2
This is How Agency Hybrid Yields Have Moved...



Source: Lehman Brothers

Exhibit 3
... Resulting in This Movement in Spreads



Source: Lehman Brothers

21, yields on agency hybrids had risen to 5.72%, while those on comparable duration Treasuries had dropped to 4.10%. This is what we consider a compelling shift in market pricing.

Agency hybrid and fixed-rate issues are not the only mortgage instruments that we have added to client portfolios recently. However, they are the cleanest example of available opportunities. There have been other investment opportunities which Western believes offer larger spreads on yields-to-maturity with slightly more credit risk. We are carefully pursuing such issues at prices we believe are compelling without having to resort to more exotic tranches which we expect to bear the brunt of default activity in the months and years ahead.

Once again, we perceive the highest quality sectors of the mortgage space to offer the cleanest macro bet at present. If the U.S. economy does well, we believe these securities will perform very well. If the economy falters substantially but not horrifically, we believe they will still do well. Again, it is our opinion that it will take outright calamity to drive any impairment in these securities' performance and we have pursued investments on behalf of our clients with a view that this will not be the case.

We could be wrong. Calamity may in fact strike, or mortgage performance even under a non-calamity may be less favorable than we have concluded. However, the arguments presented here reflect the assessments we have made of recent market conditions and the thinking behind the investment decisions we have recently made on your behalf. Keep in mind also that these tactical decisions were made within the context of the overall portfolio strategies pursued for client accounts.

Notes

[1] While hybrids have much less convexity than fixed-rate mortgages, they do exhibit some prepayment/convexity risk relative to Treasuries. The option-adjusted spread—OAS—of agency hybrids adjusts for this risk. It has risen similarly, from 50 bps in March to 120 bps as of August 21.